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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

MAY 20 1993

FEDERAL BUREAU OF INVESTIGATION
COMMUNICATIONS SECTION

In the Matter of

Accounting and Ratemaking
Treatment for the Allowance for
Funds Used During Construction
(AFUDC)

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) CC Docket 93-50
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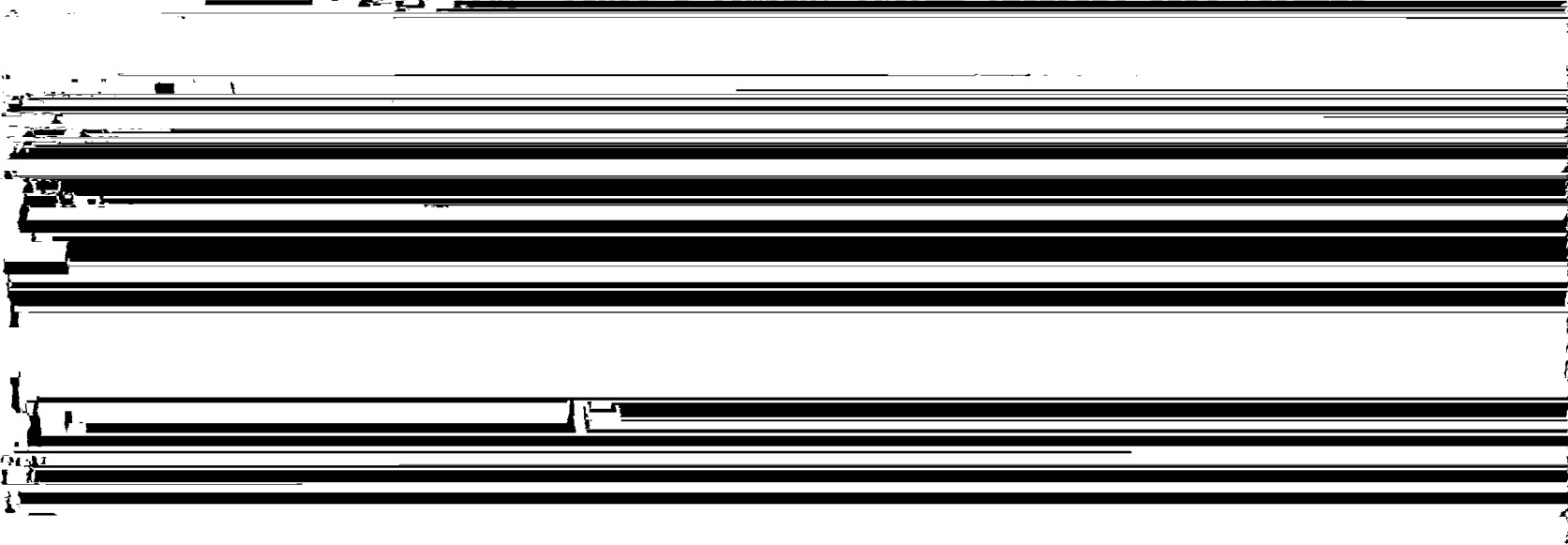
REPLY COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

construction,⁵ and maintaining the current Rate Base Method.⁶ As noted herein, and for the reasons stated in SWBT's Comments in this Docket, such suggestions should be rejected.

I. The Short-Term/Long-Term Dichotomy Should be Eliminated.

As indicated in SWBT's Comments, by eliminating the short-term/long-term dichotomy for plant under construction, the regulated Local Exchange Carrier's (LEC's) financial information will be prepared using the same accounting techniques⁷ as other entities. This enhances the comparability of such information by potential investors in an era of emerging competition and rapid technological advances. Thus, regulated LEC's should have the same ability as other entities to account for AFUDC consistent with GAAP.

SWBT supports Ameritech's and NYNEX's position that interest capitalized should apply to all construction (short and long-term) in order to reflect the true total cost of a company's investment in an asset.⁸ Theoretically, the interest capitalized should represent interest cost incurred by the construction project which could have been avoided had construction project expenditures not been incurred. Since a company incurs interest cost for the



therefore appropriate to capitalize the valid short and long-term interest costs. Still further, this makes the regulated entity's financial statements more comparable to nonregulated entities.

II. The Revenue Requirement Offset Method Should Be Adopted For All Plant Under Construction.

SWBT concurs with NYNEX that the Commission's proposed Revenue Requirement Offset Method provides an appropriate balance between cost recovery and ratepayer interests.⁹ The Revenue Requirement Offset Method permits the regulated entity to earn a fair rate of return on its investment by including all plant under construction in the rate base. Concurrently, the regulated cost of service is offset by the amount of interest capitalized which is in the ratepayers' interest.

Bell Atlantic suggests that interest capitalization and the Revenue Requirement Offset Method should apply only to long-term construction.¹⁰ Bell Atlantic argues that including short-term construction in the application of interest capitalization and the Revenue Requirement Offset Method increases the riskiness of investing in such projects and thus discourages such activity.¹¹ However, if application to both short and long-term construction represents the true cost of such investment projects, then the total risk could and should be assessed in evaluating whether an

WFOC is authorized for short term construction. Therefore, the

IV. CONCLUSION

In light of the foregoing, and for the reasons set forth in SWBT's initial Comments in this proceeding, SWBT respectfully requests that the Commission adopt the NPRM as proposed.

Respectfully submitted,

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May 28, 1993

CERTIFICATE OF SERVICE

I, Kelly Brickey, hereby certify that the foregoing "Reply Comments of Southwestern Bell Telephone Company" in Docket 93-50, has been served this 28th day of May, 1993 to the Parties of Record.


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